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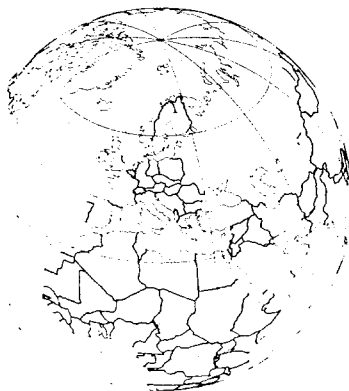
Memorandum for:

The attached Talking Points were sent to
DO/EURA per their request, for the DCI's meeting
with Icelandic officials on 23 October 1984.



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16 October 1984

Director,

E U R A

**Office of European Analysis
Directorate of Intelligence**

15 October 1984

Iceland: Talking Points for the DCIPolitical-Security Issues

1. Prime Minister Steingrimur Hermannsson leads a coalition government of his agrarian-based centrist Progressive Party and the conservative Independence Party. The coalition, which has been in office since May 1983, holds 37 out of 60 seats in parliament and, according to polls, enjoys the confidence of a majority of Icelanders. The Social Democratic Party, the Social Democratic Alliance, the left-socialist Peoples Alliance, and several female parliamentarians who ran on their own slate make up the opposition. Hermannsson and Foreign Minister Geir Hallgrimsson, who also has responsibility for defense matters, strongly support NATO policies and the presence of US and NATO forces at the Keflavik air base.

- The government is seeking a more active role for Iceland in NATO forums, specifically on infrastructure matters. To this end, last summer the Foreign Ministry was reorganized to include a full-time NATO desk officer, and steps are being taken to upgrade Reykjavik's representation in Brussels.
- Since May 1983, Foreign Minister Hallgrimsson has pushed hard for greater public appreciation for and acceptance of the requirements of Iceland's security position. He has been instrumental in helping to forge closer US-Icelandic ties.

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Economic Issues

2. The government continues to pursue the economic austerity program it launched in May 1983 when it took office. Its foremost success has been to bring inflation down from a record high of over 120 percent to a current annual rate of 18-20 percent. The program also focuses on reducing large government deficits and trade imbalances, while taking modest steps to combat rising unemployment.

- Public sector employees have led a large scale strike that began 4 October, demanding compensation for wages lost since indexation was abolished last year. The government has yielded somewhat, mainly in terms of non-wage benefits, but it is insisting on a settlement that will not send inflation skyrocketing again. Despite calls for a vote of confidence from the leftwing Peoples' Alliance, Hermannsson is standing firm against calling new elections over the issue.

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3. The government hopes to diversify the Icelandic economy, which depends on the fishing industry for about half of its total employment and over 70 percent of its export revenue.

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- The government has encouraged domestic and foreign investment in the hydroelectric, geothermal, and minerals areas, of which Iceland has substantial resource bases. [redacted]

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Bilateral Issues

4. The accession to power of a center-right government has significantly improved the climate for resolving outstanding issues over the US-manned Icelandic Defense Force. Iceland, with no armed forces of its own, relies on the IDF and the Icelandic Coast Guard for its protection.

- Foreign Minister Hallgrimsson has paved the way for government approval of many modernization projects that had been delayed under the previous center-left administration -- including new fuel storage facilities, air defense expansion and modernization, and a new joint military-civilian-use air terminal at Keflavik. [redacted]

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5. Iceland's current economic strains have made it difficult for the government to fund fully its share of these projects. At the same time, the financial problems have made the government and the public more sensitive to the economic benefits of a US presence. Any future US proposals for improvement in Defense Force facilities likely will be even more closely examined with this in mind.

- Awareness of the economic benefits may account in part for a lessening of overt hostility to the US presence -- almost exclusively from the left. Base opponents recently cancelled an annual protest march against the stationing of US forces, in part, according to Embassy officials in Reykjavik, because they expected a poor turnout. [redacted]

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6. Only one significant problem mars otherwise exemplary relations with the US. Earlier this year an American transatlantic shipping company -- [redacted] began ferrying US military cargo to and from Keflavik, taking away some market share from Icelandic shipping firms which previously enjoyed a monopoly over the route. Negotiations between the two governments have thus far failed to find a long-term solution to a situation Iceland sees as potentially damaging to its economic interests. [redacted]

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